

## Message Text

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42

ACTION STR-04

INFO OCT-01 EUR-12 IO-11 ISO-00 STRE-00 H-02 SS-15 L-03

NSC-05 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 USIA-06 TRSE-00 XMB-02 SP-02 CIEP-01 LAB-04

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R 081412Z MAR 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC 1237

INFO AMEMBASSY BUDAPEST

LIMITED OFFICIAL USE SECTION 1 OF 2 MTN GENEVA 1748

PASS STR FOR ACTION

H PASS CODEL

E.O. 11652: N/A

TAGS: ETRD MTN

SUBJ: HUNGARY AND THE MTN--IMPLICATIONS FOR U.S.-HUNGARIAN TRADE

1. SUMMARY. CULBERT'S MEETINGS WITH HUNGARIAN OFFICIALS MARCH 3-5 FOCUSED MAINLY ON CLARIFYING U.S. AND HUNGARIAN OBJECTIVES IN MTN. INFORMAL EXCHANGE OF VIEWS ON PROSPECTS FOR ESTABLISHING U.S.-HUNGARIAN MFN RELATIONS INDICATED HUNGARIANS HOPE THIS WILL BE POSSIBLE BEFORE END OF MTN BUT THEY WILL NOT ENTER INTO NEGOTIATIONS WITH U.S. UNTIL AND UNLESS SECTION 402 OF TRADE ACT (FREEDOM OF EMIGRATION) IS REMOVED. HUNGARIANS DO NOT LIKE TRADE ACT REQUIREMENT FOR SEPARATE BILATERAL AGREEMENT INCLUDING MARKET DISRUPTION CLAUSE AS PREREQUISITE FOR MFN RELATIONS BUT INDICATED THEY WOULD PROBABLY BE WILLING TO NEGOTIATE IF POLITICAL PRE-REQUISITE MET (ELIMINATION SECTION 402); THEY APPEARED TO BE MORE CONCERNED ABOUT 3 YEAR LIMITATION (ALBEIT RENEW-ABLE) IN SECTION 405 THAN TO IDEA OF A MARKET DISRUPTION

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CLAUSE. END SUMMARY.

2. DEPUTY HEAD OF MTN DEL VISITED BUDAPEST MARCH 3-5 (AT HUNGARIAN INVITATION) PRIMARILY TO ADDRESS NATIONAL FOREIGN TRADE INSTITUTE SEMINAR. PARTICIPANTS CONSISTED OF ABOUT 30 MIDDLE-LEVEL OFFICIALS OF VARIOUS HUNGARIAN FOREIGN TRADE ENTERPRISES AS WELL AS GOVERNMENT MINISTRIES. EMBASSY ECONOMIC/COMMERCIAL OFFICERS DAMERON AND BACKMAN ALSO ATTENDED ALL-DAY SEMINAR HELD AT SUBURBAN CONFERENCE CENTER IN DOBOGOKO. SEMINAR ORGANIZED AND CHAIRED BY HUNGARIAN PRINCIPAL GATT NEGOTIATOR, JANOS NYERGES OF MINISTRY FOREIGN TRADE.

3. CULBERT'S PRESENTATION REVIEWED STATUS AND OUTLOOK FOR MTN IN ALL MAIN AREAS OF NEGOTIATION WITH EMPHASIS ON POSSIBILITY OF GAINS HUNGARY COULD EXPECT IN ITS MAIN WESTERN EUROPEAN EXPORT MARKETS, NOTING IMPROVED RECIPROCAL TRADE OPPORTUNITIES FOR U.S. AND HUNGARY IN OUR RESPECTIVE MARKETS DEPENDED ON ESTABLISHMENT OF MFN RELATIONS, IN ABSENCE OF WHICH MTN WOULD INEVITABLY INCREASE DISCRIMINATION EACH OF US APPLIES TO PRODUCTS OF THE OTHER. CULBERT SUGGESTED IMPROVED PRICE COMPETITIVENESS OF MOST U.S. PRODUCTS SINCE 1971-73 PARITY CHANGES AND GENERALLY LOWER RATES OF U.S. INFLATION THAN IN MOST DEVELOPED COUNTRIES MEANT, INTER ALIA, THAT HIGH LEVELS OF HUNGARIAN DISCRIMINATORY TARIFFS PROBABLY FORCING HUNGARIAN ENTERPRISES TO PURCHASE INDUSTRIAL EQUIPMENT IN MORE EXPENSIVE MARKETS; HUNGARY THEREFORE SHOULD HAVE ECONOMIC INCENTIVE IN MFN RELATIONS WITH U.S. BOTH AS IMPORT SOURCE AND EXPORT MARKET. (THIS POINT ACKNOWLEDGED DURING QUESTION PERIOD AND PRIVATE FOLLOW-UP WITH OFFICIAL OF INDUSTRIAL EQUIPMENT IMPORT ENTERPRISE WHO HAS BEEN NEGOTIATING WITH ALCOA FOR IMPORTATION OF U.S.-ORIGIN ALUMINUM PLANT EQUIPMENT BUT HIGH HUNGARIAN DISCRIMINATORY TARIFF MAKES U.S. PRICE UNCOMPETITIVE).

4. ON MARCH 4 CULBERT (ACCOMPANIED BY NYERGES) CALLED ON DEPUTY MINISTER OF PLANNING GODO. LATTER ACKNOWLEDGED HE HAD BEEN OPPONENT OF HUNGARIAN ADOPTION OF TARIFF IN 1968, NOTED TARIFF REVENUE NOW ACCOUNTS FOR ABOUT 5PERCENT OF GOH INCOME, AND SAID IF HUNGARY HAD TO MAKE SIGNIFICANT TARIFF CUTS IN MTN HE ASSUMED THERE WOULD BE STRONG INTERNAL PRESSURES LIMITED OFFICIAL USE

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TO RAISE TARIFFS ON UNBOUND ITEMS TO MAINTAIN BUDGETARY REVENUE. GODO ALSO EXPRESSED SOME RESERVATION ABOUT IMPACT OF HIGH HUNGARIAN TARIFF ON DOMESTIC COSTS.

5. SAME DAY CULBERT AND NYERGES SPENT SEVERAL HOURS WITH DEPUTY MINISTER OF FOREIGN TRADE KOVACS. HE WAS KEENLY INTERESTED IN OUTLOOK FOR MTN ESPECIALLY FOR AGRICULTURAL TRADE. KOVACS AWARE THAT TARIFF CUTS IN MTN WOULD MAKE

EXPANSION OF U.S.- HUNGARIAN TRADE EVEN MORE DIFFICULT THAN AT PRESENT BUT NOTED LEVEL OF U.S.-HUNGARIAN TRADE SO TINY THAT MFN (OR NON-MFN) IS NOT A SIGNIFICANT FACTOR IN HUNGARIAN ECONOMIC CALCULATIONS; HE ASSUMED U.S. ALSO INDIFFERENT--AND PERHAPS MORE SO--FOR SAME REASON. HE NEVER-THELESS EXPRESSED VIEW THAT DISCRIMINATORY U.S.- HUNGARIAN TRADE RELATIONS UNFORTUNATE AND HE WAS INTERESTED IN GETTING A BETTER UNDERSTANDING OF TECHNICAL REQUIREMENTS OF TRADE ACT (OTHER THAN SECTION 402) NECESSARY TO PERMIT MFN RELATIONS. KOVACS SAID BOTH POLITICAL AND ECONOMIC REALITIES OF HUNGARIAN DEPENDENCE ON USSR RULED OUT ANY POSSIBILITY OF NEGOTIATING WITH U.S. SO LONG AS SECTION 402 EXISTED. HE ADDED THAT THE FACT THAT ROMANIA HAD SUBMITTED TO SECTION 402 AND NEGOTIATED A BILATERAL TRADE AGREEMENT WITH U.S. ONLY REINFORCED HUNGARIAN DETERMINATION NOT TO DO SO; ROMANIANS, HE SAID, SEEM TO ENJOY DOING THINGS THAT IRRITATE USSR BUT HUNGARY DOES NOT AND WILL NOT. AFTER EMPHASIZING THAT THERE ARE NO HUNGARIAN EMIGRATION BARRIERS IN CONFLICT WITH SECTION 402 BUT THAT LATTER PROVISION OF U.S. TRADE ACT CONSIDERED BOTH EXTRANEIOUS AND POLITICALLY OFFENSIVE, KOVACS SAID HUNGARY MIGHT BE INTERESTED IN NEGOTIATIONS TO ESTABLISH MFN RELATIONS WHENEVER CONGRESS GOT RID OF SECTION 402. HE ASKED WHY A BILATERAL MARKET DISRUPTION CLAUSE NEEDED AND WHY RELEVANT PROVISIONS OF PROTOCOL OF HUNGARIAN ACCESSION TO GATT WERE CONSIDERED INADEQUATE BY U.S. CULBERT REPLIED (A) EC WAS WILLING TO ACCEPT RELATIVELY WEAK

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ACTION STR-04

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NSC-05 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 USIA-06 TRSE-00 XMB-02 SP-02 CIEP-01 LAB-04

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R 081412Z MAR 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC 1238

INFO AMEMBASSY BUDAPEST

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PASS STR FOR ACTION

H PASS CODEL

CONSULTATION PROCEDURE IN ACCESSION PROTOCOL FOR IMPORTS CAUSING SERIOUS INJURY IN RETURN FOR HUNGARIAN ACCEPTANCE OF EC'S DISCRIMINATORY QRS AGAINST HUNGARY; (B) U.S. WOULD NOT HAVE SAFEGUARD POSSIBILITIES COMPARABLE TO THAT OF EC WITHOUT A MORE FLEXIBLE PROTECTION AGAINST MARKET DISRUPTION; (C) HUNGARY HAS ACCEPTED A MARKET DISRUPTION CLAUSE IN MFA TEXTILE CONTEXT AND IT HAS NOT BEEN INVOKED BY U.S. AGAINST HUNGARY; (D) MARKET DISRUPTION CLAUSE NEEDED BECAUSE OF U.S. UNFAMILIARITY WITH INTRICACIES OF HUNGARIAN (AND OTHER EE) COMMERCIAL/FINANCIAL/TAX POLICIES HAVING IMPACT ON PRICES; AND (E) SUCH A CLAUSE REQUIRED BY TRADE ACT AS PREREQUISITE FOR MFN RELATIONS. KOVACS' REACTION TO THIS WAS FAR FROM HOSTILE; INDEED, HE PURSUED TOPIC WITH INTEREST ASKING TECHNICAL QUESTIONS ABOUT HOW U.S. DECIDES WHAT "AN INDUSTRY" IS FOR PURPOSES OF DEFINING INJURY, WHAT "MATERIAL INJURY" MEANS, ETC.

6. CULBERT VISITED BUDAPEST CUSTOMS OFFICE MARCH 4 AND  
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MET WITH OFFICER IN CHARGE AND HIS PRINCIPAL ASSOCIATES. CHIEF INSPECTOR SAID DISCRIMINATORY COLUMN 3 OF HUNGARIAN TARIFF APPLIES TO IMPORTS FROM U.S. EVEN IF IMPORTED PRODUCT IS FOR HUNGARIAN GOVERNMENT USE. HE SAID SOME HUNGARIAN FOREIGN TRADE ENTERPRISES ORDERED GOODS FROM U.S. IN IGNORANCE OF COLUMN 3 RATES AND SOME WERE IN FINANCIAL DIFFICULTIES AS A RESULT. IMPORTS FROM CEMA COUNTRIES ARE ALSO TECHNICALLY SUBJECT TO MFN TARIFF RATE BUT THIS CHARGE IS WAIVED IN "REMARKS" COLUMN OF CUSTOMS FORM. CUSTOMS OFFICERS SAID THEY KNEW OF NO CASE WHERE IMPORTS FROM A WESTERN COUNTRY HAD BEEN GRANTED TARIFF EXEMPTION ON BASIS OF "COOPERATION AGREEMENTS" BETWEEN WESTERN FIRM AND HUNGARIAN ENTERPRISE. CUSTOMS OFFICERS WILLINGLY SHOWED EXAMPLES OF DOCUMENTS ON IMPORTS FROM VARIOUS EASTERN AND WESTERN COUNTRIES IN PAST FEW DAYS. CULBERT NOTED IMPORT FROM POLAND WITH DUTY WAIVED AND ASKED IF HUNGARIAN EXPORTS TO POLAND ARE ALSO EXEMPT FROM NEW POLISH TARIFF. CUSTOMS OFFICERS DUCKED THIS AS OUTSIDE THEIR KNOWLEDGE. (NYERGES AND HIS COLLEAGUES IN MINISTRY OF FOREIGN TRADE ALSO CLAIMED NOT TO KNOW WHETHER HUNGARIAN EXPORTS TO POLAND SINCE JAN 1 HAVE OR HAVE NOT BEEN SUBJECT TO NEW POLISH TARIFF.)

7. ON MARCH 5, CULBERT HAD 4-HOUR MEETING WITH NYERGES AND GROUP OF OTHER TRADE MINISTRY OFFICIALS INCLUDING SZIKLAI, DIRECTOR FOR U.S. AND OTHER DEVELOPED WESTERN COUNTRIES. MEETING CONCENTRATED ON MTN STATUS IN EACH MAJOR AREA. WITH RESPECT TO TARIFFS AND AGRICULTURE, NYERGES SAID HUNGARY DID NOT RULE OUT BEING A FORMULA COUNTRY FOR TARIFF CUTS BUT THEN OUTLINED CONDITIONS WHICH MAKE THIS RATHER DUBIOUS, NAMELY: (A) ACHIEVEMENT OF COMPLETE NON-DISCRIMINATION FOR HUNGARIAN GOODS IN EC MARKET, I.E. ABOLITION OF EC MEMBER STATE DISCRIMINATORY QRS, AND (B) PARALLELISM BETWEEN NATURE OF COMMITMENT ACCEPTED BY EC AND HUNGARY WITH RESPECT TO CONCESSIONS OF PRINCIPAL INTEREST TO BOTH, I.E. IF ACCESS TO EC FOR HUNGARIAN AGRICULTURAL PRODUCTS IS BOUND, HUNGARY WILL BIND SIGNIFICANT TARIFF CUTS BUT NOT IF FLUCTUATING ON-AGAIN-OFF-AGAIN EC CAP MECHANISMS REMAIN UNCHANGED. NYERGES SAID HUNGARIAN AGRICULTURAL INTERESTS WOULD NOT BE SATISFIED WITH AN EC QUOTA FOR BEEF AND WINE; AS EFFICIENT AGRICULTURAL PRODUCERS, HUNGARY WANTS MAXIMUM LIBERALIZATION--EVEN "FREE TRADE"--BUT HUNGARY CAN PROMISE AND IMPLEMENT LIMITED OFFICIAL USE

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"ORDERLY MARKETING." HUNGARIANS HAPPY TO LEARN U.S. TARIFF CUTTING HYPOTHESES WILL CONCEPTUALLY COVER AGRICULTURAL TARIFFS AND THEY HOPE U.S. WILL STICK TO IT. WITH RESPECT TO VARIOUS NTM CODES, HUNGARIANS ARE ANXIOUS TO AVOID HAVING HUNGARY (AND OTHER EES) EXCLUDED "BECAUSE THEY ARE SOCIALIST COUNTRIES" BUT NEGOTIATION OF CODES WHICH "TAKE ACCOUNT OF" SPECIAL FEATURES OF SOCIALIST SYSTEMS WOULD BE ACCEPTABLE.

8. IN FURTHER DISCUSSION OF PROSPECTS FOR U.S.-HUNGARIAN MFN RELATIONS IF SECTION 402 REMOVED, NYERGES AND HIS COLLEAGUES EXPRESSED CONCERN OVER 3-YEAR (RENEWABLE) LIMITATION FOR BILATERAL AGREEMENT UNDER SECTION 405 OF TRADE ACT AND EXPRESSED STRONG PREFERENCE THAT U.S. SIMPLY DISINVOKE GATT ARTICLE XXXV AND APPLY MFN GATT RELATIONS. CULBERT RESPONDED TRADE ACT DID NOT APPEAR MAKE THIS POSSIBLE BUT NOTED DEGREE OF COMMITMENT UNDER A PROSPECTIVE BILATERAL AGREEMENT WOULD PRESUMABLY BE RECIPROCAL. NYERGES ASKED IF U.S. ABLE TO CONSIDER A BILATERAL FOR AN INITIAL 3 YEAR PERIOD FOLLOWED BY DISINVOCAION OF ARTICLE XXXV TO WHICH CULBERT REPLIED SECTION 405(B)(1) APPEARED TO RULE THIS OUT UNLESS CONGRESS APPROVED AN ALTERNATIVE UNDER SECTION 405(E). NYERGES SAID HIS MISGIVINGS ABOUT 3YEAR "SHORT LEASH" WAS LINKED TO U.S. REQUIREMENT FOR SPECIAL MARKET DISRUPTION CLAUSE AND HIS FEAR THAT EC (RATHER THAN U.S.) WOULD FIND SOME WAY TO APPLY A LOOSER MARKET DISRUPTION CLAUSE THAN WAS CONTAINED IN HUNGARY'S GATT ACCESSION PROTOCOL. CULBERT SAID THIS SEEMED A BIT FAR-FETCHED SINCE EC (AND HUNGARY) WERE BOUND BY PROVISIONS OF ACCESSION PROTOCOL BUT U.S. WAS NOT.

9. CULBERT ALSO MET WITH AMB MCAULIFFE AND DCM MUDD MARCH 4  
TO SUMMARIZE STATUS OF MTN AND IMPLICATIONS FOR U.S.-  
HUNGARIAN TRADE RELATIONS, AND TO THANK THEM FOR EMBASSY'S  
SUPPORT FOR AND INTEREST IN THIS VISIT.WALKER

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## Message Attributes

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